

EXHIBIT A

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Importing Less Expensive Drugs Not Seen as Cure for U.S. Woes

By EDUARDO PORTER

A customer at the Concourse Drugs pharmacy in the Bronx will pay about \$118 to get a month's supply of 20-milligram Lipitor pills. At PharmacyInCanada.com, a Canadian online outlet, the same quantity of Pfizer's cholesterol-lowering medication, costs \$79.

The difference has become a tempting political target. Senator John Kerry, the Democratic presidential challenger, has made a campaign pledge to help cut Americans' prescription drug costs by allowing them to import drugs from Canada. President Bush has conceded that the idea is worth a try "if there's a safe way to do it." Bipartisan legislation in Congress would allow the reimportation of prescription drugs from Canada and other industrialized countries.

It may make political sense to point to Canada as a solution to high prescription drug prices in the United States. But many economists and health care experts say that importing drugs from countries that control their prices would do little to solve the problem of expensive drugs in the United States, where companies are free to set their own prices. Even the nonpartisan Congressional Budget Office estimated that allowing Canadian drug imports would have a "negligible" impact on drug spending.

To begin with, there are not enough Canadians, or drugs in Canada, to make much of a dent in the United States market. There are 16 million American patients on Lipitor, for instance - more than half the entire Canadian population.

Drug makers like Pfizer say they would reduce their shipments of drugs to distributors in Canada and other countries that re-export to the United States. "We are not going to supply drugs to diverters, in Canada or elsewhere," said Hank McKinnell, chairman and chief executive of Pfizer.

And Canadian health officials, fearing shortages and higher prices of their own, would probably clamp down on their own pharmacists and distributors to keep their drugs from leaking into the United States. Canadian advocacy groups have already complained about shortages from the exports to the United States that already occur, even though they violate American law.

Even the most vehement advocates of forcing big drug makers to lower prices in this country say that importing is a rather clumsy tool. "It's a pretty crazy solution to a fairly simple problem," said James Love, director of the Consumer Project on Technology, a group advocating a lowering of drug costs. "Reimportation is not the thing that would come to my mind."

But what comes to mind for people like Mr. Love is a political nonstarter: imposing Canadian-style price controls. No Democrat or Republican will be likely to dare to propose such a thing during an election year, or perhaps anytime soon, having seen the political debacle of the Clinton administration's effort to devise a national health care system - and knowing that the pharmaceutical industry is one of Washington's most powerful lobby groups.

forces.

Price controls "wouldn't have a ghost of a chance to pass in the Congress," said Senator Byron Dorgan, the Democrat from North Dakota who is the sponsor of the main drug reimportation bill in the Senate.

Because free-market pricing of drugs and other health care still seems to be so politically sacrosanct, the policy proposals tend to tinker around the margins.

"Is it sensible for the United States to have price controls?" asked Jean O. Lanjouw, an economist at the University of California, Berkeley. "It is a real question. But we don't discuss the real questions."

For all the shortcomings, the Kerry campaign argues that drug imports should be given a chance. "If the impact is so negligible, why are the drug companies fighting it so much?" said Sarah Bianchi, Senator Kerry's policy director. Even if the overall bulk of imports were not that large, she added, "they would apply some pressure on the drug industry and make them revisit their pricing policies."

And some of the drug companies' defensive tactics could be barred by law. The Senate legislation, for example, would bar pharmaceutical companies from denying supplies to distributors and pharmacies that export to the United States.

But the measures proposed so far would do little to change the fundamental economics of the drug industry as it exists today. Prescription drugs cost a lot to invent, but once invented cost little to manufacture. That is why patents are granted to drug companies - to prevent other companies from copying their inventions long enough for the inventors to set prices high enough to recover their investment and make a profit. But price controls short-circuit this system.

When Pfizer sells drugs in the United States it sets the price at a level intended to sell the most pills at the highest price the market will bear. In Canada, instead, the provincial and federal governments determine how much the drug maker can charge.

Take Lipitor, which Pfizer makes at a factory in Ireland for distribution to the United States, Canada and other markets. When Pfizer introduced it in 1997, the company priced it below Merck's Zocor, the leading cholesterol treatment at the time, to get Lipitor onto the approved drug lists of the health maintenance organizations that are among this country's biggest buyers.

Now that it is the nation's best-selling drug, the price is 36 percent higher than it was in 1997 - helping Lipitor achieve nearly \$10 billion in sales last year.

Currently, Pfizer charges an American wholesaler an average of \$2.07 for a 10-milligram pill, and some 15 percent less to an H.M.O. In Canada, by contrast, the health care system run by Ontario's provincial government will reimburse only 1.60 Canadian dollars (about \$1.28) for the same pill - the same price as in 1997.

"They hold all the cards," a Pfizer Canada spokeswoman, Teresa Firestone, said of the Canadian government. "Our hands are tied."

Such policies have kept Canada's prescription drug prices 30 to 80 percent cheaper than in the United States.

Because most other industrial countries maintain some kind of price controls on prescription drugs, the

United States has a similar drug price gap with the rest of the world. The Congressional Budget Office estimated that average prices for patented drugs in 25 other top industrialized nations were 35 percent to 55 percent lower than in the United States.

But the United States market is hard to compare with any other. It represented more than half of the global drug industry's sales of \$410 billion last year and was the country in which drug companies make the bulk of their profits. Whatever one thinks of the pricing disparity, efforts to force down American prices to Canadian or European levels could radically change the economics of the pharmaceutical industry - which effectively depends on United States profits for all of its activities, including a substantial portion of its spending on research and development.

American consumers are "subsidizing everyone's R&D," said Mr. Love, the consumer advocate. "We're paying way more than everyone else. Others should pay more."

In testimony before Congress last May, John Vernon, an economist at the University of Connecticut, estimated that dropping drug prices in the United States to the levels in the rest of the world would cut drug companies' investment in research and development by 25 to 30 percent.

Critics of pharmaceutical companies dispute many of their cost estimates, noting that much research spending is squandered on the development of "me too" drugs that are not truly innovative. They argue that drug companies are spending large sums in marketing to persuade patients to demand expensive new medications even when older, cheaper drugs have the same effect.

That is why the critics say the entire drug industry needs to be shaken up. Maybe the United States should pressure other rich countries to raise the prices of their drugs, so they shoulder a higher share of the global research burden. Or maybe, the critics say, the United States needs to join the rest of the world in setting price controls.

The debate over reimporting drugs from Canada does not address any of those issues. "Reimportation is a false promise," said Mr. McKinnell, Pfizer's chief executive. "If we want to import price controls, we should have that discussion. Let's have that debate."

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